



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 17, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **NEW DIRECTIONS, INC. CONTRACT REVIEW – A DEPARTMENT OF
MENTAL HEALTH SERVICE PROVIDER**

We completed a fiscal review of New Directions, Inc (New Directions or Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with New Directions, a private non-profit community-based organization that provides services to clients in Service Planning Area 5. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Third District.

DMH paid New Directions on a cost reimbursement basis or approximately \$229,000 for Fiscal Year 2007-08.

Purpose/Methodology

The purpose of our review was to determine whether New Directions complied with its contract terms and appropriately accounted for and spent DMH program funds providing the services outlined in their County contract. We evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff.

Results of Review

Generally, New Directions maintained sufficient internal controls over its business operations and the Agency's expenditures were allowable, accurately billed and supported by documentation as required. However, the Agency did not obtain criminal clearances for the six employees selected in our sample. Subsequent to our review, the Agency obtained criminal clearances for the six employees.

We have attached the details of our review along with one recommendation for corrective action.

Review of Report

We discussed the results of our review with New Directions and DMH. In their attached response, the Agency concurred with our finding and recommendation. We thank New Directions management for their cooperation and assistance during this review.

Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Dr. Scott Sale, Chair, Board of Directors, New Directions, Inc.
Toni Reinis, Executive Director, New Directions, Inc.
Public Information Office
Audit Committee

**DEPARTMENT OF MENTAL HEALTH
NEW DIRECTIONS, INC.
FISCAL YEAR 2008-09**

CASH/REVENUE

Objective

Determine whether cash receipts and revenue were properly recorded in New Directions, Inc.'s (New Directions or Agency) financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed New Directions management and reviewed the Agency's financial records. We also reviewed the Agency's bank reconciliation for October 2008.

Results

New Directions maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

Recommendation

None.

COST ALLOCATION PLAN

Objective

Determine whether New Directions' Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to allocate appropriately the shared program expenditures.

Verification

We reviewed the Agency's Cost Allocation Plan, interviewed management and reviewed their financial records.

Results

New Directions' Cost Allocation Plan was prepared in compliance with the County contract and the costs were appropriately allocated.

Recommendation

None.

EXPENDITURES**Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately billed.

Verification

We reviewed financial records and documentation to support five non-payroll expenditure transactions charged to the Department of Mental Health (DMH) program between February and October 2008, totaling \$168.

Results

New Directions' expenditures were allowable, adequately documented and accurately billed.

Recommendation

None.

FIXED ASSETS**Objective**

Determine whether fixed assets depreciation costs charged to the DMH program were allowable under the County contract, properly documented and accurately billed.

We did not perform test work in this section as New Directions did not charge fixed assets depreciation costs to the DMH program.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program. In addition, determine whether personnel files are maintained as required.

Verification

We traced the payroll expenditures for six employees totaling \$3,081 to the payroll records and time reports for the pay period ending November 22, 2008. We also interviewed three employees and reviewed personnel files for the six employees.

Results

New Directions appropriately charged payroll expenditures to DMH. However, the Agency did not obtain criminal clearances for the six employees selected in our sample. Subsequent to our review, the Agency obtained criminal clearances for the six employees.

Recommendation

1. **New Directions management ensure that criminal clearances are obtained for all staff working on the County contract and maintained on file.**

COST REPORT**Objective**

Determine whether New Directions' Fiscal Year (FY) 2007-08 Cost Report reconciled to the Agency's financial records.

Verification

We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

Results

The total Agency expenditures listed on New Directions' Cost Report reconciled to the Agency's accounting records.

Recommendation

None.



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June 4, 2009

Wendy L. Watanabe, Auditor-Controller
County of Los Angeles Department of Auditor-Controller
Kenneth Hahn Hall of Administration
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This letter is in response to the letter we received on May 21, 2009, regarding the **New Directions, Inc. Contract Review – A Department of Mental Health Service Provider.**

A. CASH/REVENUE

According to the letter there are no recommendations.

B. COST ALLOCATION PLAN

According to the letter there are no recommendations.

C. EXPENDITURES

According to the letter there are no recommendations.

D. FIXED ASSETS

According to the letter there are no recommendations.

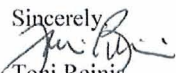
E. PAYROLL AND PERSONNEL

1. Recommendation: New Directions management ensure that criminal clearances are performed for all staff working on the County contract and maintained on file.
 - a. New Directions conducts criminal background checks but did not get copies of them which is why they were not in the personnel files that the auditors reviewed. New Directions has since changed companies and now gets copies of the criminal background checks for the personnel files.

F. COST REPORT

According to the letter there are no recommendations.

If you have any questions, please contact Achée Stevenson, Program Management Supervisor, via e-mail at astevenson@ndvets.org or via voicemail at 310-914-4045, extension 109.

Sincerely,

Tohi Reinis
Executive Director